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AZERBAIJAN COMPETITIVENESS AND TRADE (ACT) PROJECT

*ACT Q2 FY2011 Quarterly Progress Report:
January 1 – March 31, 2011*



Picture Caption: USAID sponsored ACT project organized the first ever regional conference on “Anti-Money Laundering and Combatting Financing of Terrorism” with participation of Government of Azerbaijan, foreign Financial Intelligence Units and international donor organizations.

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Azerbaijan Competitiveness and Trade (ACT) Project

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DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the U.S. Agency for International Development or the United States Government.

ACRONYMS

AAC	Azerbaijan Agribusiness Center
ACT	Azerbaijan Competitiveness and Trade
AIM	Agro Information Center
AKTIVTA	Azerbaijan Agro Input Dealers Association
AmCham	American Chamber of Commerce
AML	Anti-Money Laundering
ANS	Azerbaijan News Service
ASAU	Azerbaijan State Agricultural University
BDS	Business Development Service (providers)
CBA	Central Bank of Azerbaijan
CBRI	Central Bank Research Institute
CESD	Center for Economic and Social Development
COM	Cabinet of Ministers
CSO	Civil Society Organization
DRC	Domestic Resource Costs
DPI	Daily Price Index
ERC	Economic Research Center
FI	Financial Institutions
FSSP	Financial Sector Support Program
GOAJ	Government of Azerbaijan
HACCP	Hazard Analysis and Critical Control Points
ICT	Information Communications Technology
IT	Information Technology
MCIT	Ministry of Communication and Information Technology
MFA	Ministry of Foreign Affairs
MIE	Ministry of Industry and Energy
MIS	Management Information Systems
MOED	Ministry of Economic Development
MOJ	Ministry of Justice
MOT	Ministry of Taxes
RFP	Request for Proposals
SOW	Statement of Work
STTA	Short Term Technical Assistance
USAID	United States Agency for International Development
USTR	US Trade Representative
WTO	World Trade Organization

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1. Project Overview

Sibley International is pleased to present the second Azerbaijan Competitiveness and Trade Project Q2 FY2011 Quarterly Report in accordance with contract number AID-EEM-I-00-07-00003, task order number AID-112-TO-10-00002. This report covers the second reporting period and describes project activities completed during January 1-March 31, 2010.

The ACT project began operations in October 2010 and builds on the work of various other USAID projects previously completed to support similar objectives. The USAID ACT project aims to improve the domestic business enabling environment; develop a liberalized, more transparent trade environment; and improve targeted value chains in the agriculture sector of Azerbaijan. These overall objectives will be additionally supported through the elimination or mitigation of technical and administrative barriers that hinder progress in all three areas.

Formally, the project is divided into the three abovementioned interconnected and interdependent components. In addition, there are several cross-cutting technical areas that support all three components. These include the institutionalization of education related to trade, investment and agriculture; the development of a public-private dialog to support discussions between the private and public sector to improve understanding of changes; the analysis of costs of various initiatives (legislation implementation, administrative barriers, trade facilitation, etc.) to facilitate the understanding and possible change of various legal and administrative measures through the use of objective cost information; overall monitoring and evaluation to ensure the project objectives are met; and development and implementation of a grants program to support the development of partner organizations in building local institutional capacity.

The Project works towards achieving the following as defined in the SOW:

- Broad based understanding and acceptance of the need for an improved domestic business environment and a liberalized, more transparent trade environment involving businesses, universities, associations, alliances, public sector etc.;
- Stakeholders active in pushing towards an improved domestic business environment, especially in agriculture/agribusiness sectors and a more liberalized, transparent trade environment;
- Improved domestic business environment and trade-related laws and implementation of these laws, leading to an improved investor and trade climate;
- Improved access to finance, especially for small and medium enterprises in the agriculture sector, including microfinance, commercial banks, leasing institutions, etc.;
- Implementing rules and regulations transparently enforced, e.g., anti-money laundering, greater transparency with regard to trade, and other corruption fighting measures that will lead to increased exports;
- Improved access to market information and agricultural best practices, through academic institutions, professional associations, alliances, etc.;
- Adoption of best practices by farmers/businesses in targeted sectors; and

- Improved access to markets for targeted value chains.

2. Project Activities and Accomplishments in Q2 FY2011

Component 1: Domestic Business Environment Improved

1A: Build up Public-Private Dialogue

- The project completed its assessment of civil society organizations (CSOs) started in the previous quarter. It nominated the Economic Research Center, Khazar University, and the Center for Economic and Social Development. USAID recommended the Azerbaijani American Chamber of Commerce (AmCham) as the fourth partner. By the end of the quarter, each of these organizations had accepted the nomination and had been provided a preliminary orientation as to opportunities with the project.
- The project also began its assessment of the legal information providers serving small and medium sized enterprises.
- As part of its public private dialog, ACT discussed the possibility of a new law on investment activities with members of AmCham. Partly as a result of these discussions, ACT reconsidered whether a new law was indeed necessary.
- Further, as a part of public private dialog, ACT arranged consultations with AmCham members to discuss possible amendments to the Tax Code and the new draft Customs Code and possible improvements. The following topics were discussed:
 - Plans for the future work together on the new Tax Code (decreasing the tax rate, changing simplified tax, income tax of physical persons etc.);
 - Customs auditing that is the object of the new Customs Code (CC);
 - New proposed provisions included in the CC, e.g. Article 100, post customs clearance auditing, audit process based on the Kyoto Convention Guidelines;
 - Questions and answers section - particularly on auditing and goods import/export, brokers, customs value and declaration of good, audit process and procedures.

1B: Improve Domestic Business-Related Legislation and Public Expenditure

- After consultation with the President's Office the component 1 team set out to develop comprehensive amendments to the draft Competition Code in line with the memorandum it submitted to the President's Office in the previous quarter. It submitted this draft to the President's Office just prior to the end of the quarter.
- With the assistance of tax experts from the US and the EU, the component 1 team developed a "Briefing Paper" on tax policies. The paper, which was vetted with the

private sector, offered suggestions on various aspects of the current tax regime, paying particular attention to changes that could possibly be adopted in the round of amendments going to Parliament in May 2011.

- During the previous quarter, the President's Office had requested the project to develop a new draft law on investment activity. After consulting with the private sector, however, the project determined that such a draft law was likely unnecessary and possibly harmful to foreign investors. As a result, the project decided to delay submission of any draft law to the President's Office pending further discussions therewith.
- The project developed and submitted to USAID a study of the administrative barriers hampering the development of the hazelnut industry.
- The ACT project kicked off its efforts to improve cost benefit analysis in government decision making with a roundtable of government officials held on March 18, 2011.

1C: Institutionalize Knowledge

- The project nominated three universities to serve as partners in efforts to upgrade the country's economics and other course curricula—Azerbaijan State Economics University, Azerbaijan State Agrarian University, and Khazar University. These nominees were approved by USAID. Thereafter, with the help of an education expert from the University of Kentucky, the project developed draft work plans with each of these institutions.

1D: Improve the Financial Sector

- After discussions with USAID, the number of financial institutions that would initially receive technical assistance was reduced to five. The project developed work plans in close cooperation with these institutions and developed terms of reference for the consultants that would be assisting them. Memoranda of understanding had been drafted and various options for cost sharing by Turan Bank and the Bank of Baku were being discussed with USAID as the quarter ended.
- In February, the Central Bank of Azerbaijan (CBA) formally requested assistance from USAID and agreed to cover up to 25% of the costs of such assistance. The areas it identified, included, among others, cash management, banking supervision, strategic management, and financial monitoring. In response, the project arranged to deploy Steve and Terry Glude, who had been providing assistance to the CBA on cash management under a previous project. The project also developed work plans with the bank to develop a risk assessment system and to introduce activity based costing.

Component 2: Liberalized, More Transparent Trade Environment Developed

2A: Support to GOAJ on WTO Accession

- During the reporting period, ACT mainly provided assistance to line ministries to answer questions put forth by the EU and US, and received initial versions of answers to EU questions from most ministries. For the US questions, ACT provided guidance to line ministries, but only a few ministries submitted official answers to MOED. ACT will continue reviewing received answers jointly with MOED to see if they fit within expectations of WTO members.
- ACT expert Alicia Greenidge held several meetings with MFA and MOED to identify their technical assistance needs related to the WTO services agreements and develop a plan for future activities. She also provided specific guidance and answered several questions from MOED and MFA staff. As a result of these meetings and roundtables on services and multilateral negotiations, the Head of Divisions at MOED and head of Services Negotiation Working Group, Ms. Gulchin Alasgarova and Ms. Seljan Verdiyeva, from MFA, strengthened their capacity on the service sectors covered in negotiations. Both of them demonstrated a highly positive and open approach to reforms required for WTO accession, particularly in relation to the services sector. This capacity building process was also part of selecting and building capacity of young reformers to become WTO champions, according to the ACT Work Plan.
- In addition, Ms. Greenidge developed papers on business visas, service subsidies, energy services and held roundtables on those with the participation of the following government organizations:

In business visas and subsidies roundtables:

- Gulchin Alasgarova, Ministry of Economic Development (MOED);
- Mirza Aliyev, Ministry of Economic Development (MOED);
- Seljan Verdiyeva, Ministry of Foreign Affairs (MFA);
- Togrul Sadigov, Ministry of Foreign Affairs (MFA);
- Fakhri Akperov, Ministry of Transportation (MOT);
- Bakhtiyar Mammadov, Ministry of Labour and Social Protection;
- Jahandar Gadirov, Ministry of Communication and Information Technologies (MCIT).

In energy services roundtable:

- Gulchin Alasgarova, Ministry of Economic Development (MOED);

- Seljan Verdiyeva, Ministry of Foreign Affairs (MFA);
- Fakhri Akperov, Ministry of Transportation (MOT);
- Yagub Hasanov, Ministry of Industry and Energy (MIE);
- Imran Mammadov, Ministry of Industry and Energy (MIE);

All participants mentioned that the roundtables were very useful. They also asked very practical questions creating a very interactive workshop. As a result of these roundtables, the government decided to improve its service offers on the basis of the guidance provided by Ms. Greenidge.

- In order to speed up the WTO accession process, ACT experts met with the Head of the WTO Department, Bakhtiyar Alishov, and Attaché, Seljan Verdiyeva, and explained members' concerns, challenges and possible solutions.
- ACT justified and assisted in translation and packaging of five draft Laws to be submitted to the WTO Secretariat. They are:
 - Draft Law on Technical Regulations;
 - Draft Amendments to the Law on Food Products;
 - Draft Amendments to the Law on Sanitary and Epidemiological Welfare;
 - Draft Law on Combating Piracy; and
 - Draft Law on broadcasting organizations.
- The project worked on several additional pieces of legislation related to WTO accession, including:
 - Draft Customs Code. During preparation of the code for the second reading, the ACT project continued working with the President's Office on the customs code in order to ensure compliance with WTO and EU requirements.
 - Draft Amendments to the Law on Food Products. ACT has been working with the Cabinet of Ministers and State Committee on Standardization, Metrology and Patent to obtain a consensus on draft amendments to the Law.
- ACT continued working with the State Copyright Agency and received an official letter on consideration of comments provided on the following drafts:
 - Amendments to the Law of Azerbaijan Republic on Commercial Secrets;
 - Amendments to the Law of Azerbaijan Republic on Legal Protection of Topologies and Integral Circuits";
 - Amendments to the Civil Procedural Code of Azerbaijan Republic;

- Amendments to the Code of Administrative Offences of Azerbaijan Republic; and
 - Amendments to the Criminal Code of Azerbaijan Republic.
- The team worked on reviewing the draft Law on Anti-dumping, Countervailing, and Safeguard Measures to ensure conformity with the three aforementioned WTO agreements and prepare a shorter version, excluding implementing provisions from the law and prepared draft implementing regulations on the following:
 - The Rules on calculation of costs (anti-dumping);
 - The Rules on calculation of amount of subsidy (countervailing);
 - The Rules on initiation and conducting an investigation, and notification on investigation;
 - Regulations (bylaws), structure and main functions of the State body responsible for the Trade Remedies Law (investigating authority); and
 - Application forms (models) for initiation of proceedings on trade remedies.
 - In addition, on February 17 – 18 the team arranged and hosted a seminar on “WTO Accession experience of recently acceded countries”. The event was attended by the following representatives:
 - Elmar Mammadov, Ministry of Foreign Affairs (MFA);
 - Gulchin Alasgarova, Ministry of Economic Development (MOED);
 - Seljan Verdiyeva, Ministry of Foreign Affairs (MFA);
 - Malahat Aliyeva, Azerbaijan Airlines (AZAL);
 - Yagub Hasanov, Ministry of Industry and Energy;
 - Tayyar Aliyev, State Urban Planning and Architecture Agency;
 - Janmirzayev Agamirza, State Urban Planning and Architecture Agency;
 - Farhad Mammadov, State Maritime Administration;
 - Eldaniz Zeynalov, Veterinary Service;
 - Rasim Guliyev, Ministry of Agriculture;
 - Aladdin Eyvazov, Phytosanitary Service;
 - Imran Mammadov, Ministry of Industry and Energy;
 - Xudayat Hasanli, Copyright Agency;
 - Zahir Hajiyev, Standardization, Metrology and Patent Committee;
 - Vugar Shikhahmedov, Ministry of Culture and Tourism;
 - Ruslan Abdulalimov, Ministry of Culture and Tourism;
 - Agil Valiyev, Ministry of Education;
 - Jahandar Gadirov, Ministry of Transportation;
 - Fikrat Pashayev, Khazar University;
 - Vugar Huseynov, State Procurement Agency;
 - Rana Abdullayeva, Ministry of Labor and Social Protection;
 - Keith Simmons, USAID;
 - Gahramanova Aytan, USAID;
 - Melani Schultz, ACT Project;

- Elkhan Mikayilov, ACT Project;
- Alida Mahmudov, ACT Project;
- Sabira Shikhaliyeva, ACT Project;
- Afgan Safarli, ACT Project;
- Farhat Farhat, ACT Project;
- Kamran Hajiyev, ACT Project;
- Emil Guliyev, ACT Project;
- Tarana Karimova, ACT Project.

The following international experts participated in the Workshop:

- Ms. Hilda Al-Hinai, Deputy Permanent Representative to the WTO;
- Ms. Alicia Greenidge, International Trade Expert;
- Mr. John Hancock, Councilor, Trade and Finance Division, WTO Secretariat.

Opening statements were delivered by:

- Mr. Elmar Mammadov, First Secretary of Embassy of Republic of Azerbaijan in France who also delivered a lecture focusing on Azerbaijan's experience in goods negotiations; and
- Mr. Keith Simmons, USAID Country Coordinator.

The workshop was moderated by Mr. Farhat Farhat (Senior WTO Advisor, USAID ACT Project) and Mr. Elkhan Mikayilov (Team Leader, USAID ACT Project) who also delivered a lecture on Azerbaijan's accession challenges.

The main themes resonating across the Workshop were the need to: i) rapidly adopt non-negotiable commitments (e.g. legislation for WTO conformity and elimination of WTO-inconsistent policy measures); ii) rapidly conclude on negotiable items as delays do not serve the interests of Azerbaijan; and iii) avoid protectionism and failed import substitution policies. WTO concessions should not be viewed as a cost but rather as an opportunity to engage in the multilateral trading system and increase access for Azerbaijani goods and services.

By the end of the workshop, the audience appeared to have full concurrence on the need to move forward. In addition, many expressed gratitude for the information which they found useful in terms of promoting remaining reforms and improving market access offers on goods and services. Some participants, in addition, indicated the importance of conducting economic impact analyses in certain areas to convince policy and decision makers to move forward.

2B: Improve Anti-Money Laundering

- Within the framework of AML/CFT initiatives, the Financial Monitoring Unit (FMS) of the Central Bank of Azerbaijan (CBA) with the support of the USAID funded Financial Sector Support Program (FSSP) launched its first ever regional AML conference in February to

share experiences across the region on the challenges and best practices in combating money laundering and financing of terrorism. The conference took place on February 17 and 18 with over 50 attendees, including the Egmont Group, Basel Institute, UNODC and MONEYVAL, many Financial Intelligence Units from all over the region, and key regulatory, judicial and law enforcement Azerbaijan government agencies. The main objective of the event was to introduce Azerbaijan's Financial Intelligence Unit to the global world and to lay the foundation for future cooperation in the region and internationally.

- The ACT project provided support to the FSSP project through February and began directly supporting this component in March 2011.

2C: Quantify Costs of Current Trade Regime

- As mentioned above initial agreement with ERC was achieved on quantifying the costs of trade. ACT expert, Peter Carr, started working with ERC during the quarter, providing the following training sessions:

1. Interactive training on Measuring the Costs of Barriers to Trade

This training included an explanation of international experience in quantification of costs of trade and brief information on measuring the cost of barriers to trade. The interactive session also included a discussion on Azerbaijan's current situation on trade cost issues.

2. The fundamental training on the Costs of Barriers to Trade.

This seminar included an introduction on the concept of measuring cost of trade using the Standard Cost Model and an outline of how the measurement process works in practice. The practical aspects were emphasized including how the results will benefit importers across the board and how familiarity with implementing this methodology will benefit the ERC in the future.

As a result of the two training sessions ERC began to collect all the import and export related laws and regulations and to identify 5-10 companies operating in the trade sector for establishment of a Focus Group. The next step will be to provide questionnaires to the selected companies.

Component 3: Targeted Agricultural Value Chains Improved

3A: Identify Sub-Sectors that Exhibit Potential for Competitive Growth

- Dr. Dirck Stryker was enlisted to provide support to work with the selected institution(s) to update/confirm the previous DRC analysis on the selected sectors for the ACT project. This analysis will include dairy and aquaculture and will make recommendations as to what additional sectors have strong potential according to DRC and market studies. One

of the main purposes of this consultancy was to work with the selected organizations in an effort to help them build market demand for such reports in the future and to build up their capacity to conduct such studies. This work will continue through the end of the year.

- The team began the first market study concentrating on aquaculture and will be carried out by the Business Innovation Center in Sheki, under the supervision of the VCS. The study will provide all industry players with a much more comprehensive picture on the current market, market trends, market price points, production volumes, feeding habits, distribution, water management, brood stock management, and a comprehensive map of all fish farm activities throughout the country.

3B: Improve Competitiveness of Targeted Sub-Sectors

- The team completed rework on all sector action plans for approval by USAID. Changes were made to all plans to present a clear picture on how administrative barriers to trade would be addressed, how access to markets would be improved, and how STTA and local experts would be utilized to carry out the work. The plans will be resubmitted in April to USAID for final approval.
- The team developed Request for Proposals (RFP) for all component and sector activities that will be announced in April with the final approval of the sector action plans.
- The team developed and presented to USAID a process and procedure mapping tool to help identify administrative barrier constraints and encourage greater public/private sector involvement.
- A local carp expert was enlisted to conduct a comprehensive carp fish food formulation research project. The local consultant will assess the current capacity of the Girkhbulag feed mill, prepare feed formulation and feed conversion ratios and the associated costs, identify local sources of ingredients, meet with local industry leaders to determine overall demand, oversee initial production of carp feed using new formulas, perform a cost benefit analysis on imported feed versus locally produced feed, and conduct a workshop in the regions with industry leaders to review the findings and outcomes. Fish food manuals will be produced as a result of this work.
- An RFP was developed and distributed to appropriate local firms to assist the project staff and the HACCP expert to identify at least 10 companies interested in becoming HACCP compliant over the course of the project's life. The companies will be selected and begin work in April under the supervision of the component 3 VCS and international expert. The intention of this work is not only to support compliance by local firms with HACCP but also to build local capacity to implement the standard.

- Sector experts worked with the team throughout the quarter traveling the regions and meeting with key industry players to gain a better understanding of constraints to assist in developing action plans in dairy, hazelnuts, apples, pomegranate, HACCP compliance, and agricultural extension.
- A meeting was held in the ACT project office with Mr. Muhammad Guluzadeh, a legal advisor working for the International Center for Not-for-Profit Law, regarding the registration of associations and NGOs. He explained the current laws regarding registration, discussed both the positive and negative aspects of legal registration, and reviewed the list of documents required. According to the action plans, the ACT project will assist sector leaders to legally register their groups if they have a desire to do so. Mr. Guluzadeh expressed a willingness to build a partnership with the ACT project and the sector leaders to help all parties accomplish their goals.

3C: Improve Knowledge of Agricultural Best Practices

- International expert, Michael Reed, and project management held follow-up meetings with the rector and the international relations manager of Azerbaijan State Agriculture University (ASAU) to review and approve recommendations for cooperation in curriculum changes as they relate to economics, trade and agriculture including extension services. Initial coursework will include fundamentals in soil science, ruminant science, plant production systems, and veterinary immunology. Additional workshops are planned in curriculum development, CODEX Alimentarius, and distance learning technical assistance. In addition the project met with the leadership of the Azerbaijan State Medical University and agreed to cooperate to assess its current curriculum and develop a course in food hygienic practices. This work will begin during the summer of 2011.
- A meeting was held with the Azerbaijan State Agriculture University (ASAU) and the Bureau on Information Communication Technology (ICT) for Education on the ICT campus in Baku. ASAU is an education partner with the ACT project and Bureau on ICT for Education is functioning under the Ministry of Education, assisting high schools and universities to connect to the ICT data resource center. This system enables educational institutions to conduct various online courses and provides access to a state of the art school/university management system. The discussions involved talks about the technical and financial questions related to connection. The Bureau Director, Mr. Samir Mammadov, offered to lay the fiber optic cable to the University and locate the modified curricula in the Bureau's data resource center free of charge. According to him, the major challenge lies with identifying interested and committed university staff that will take on the task of modifying the curricula in the way that it supports the distance learning format. Digitalization of the training materials is a long and difficult

process, but if the university management commits to accomplishment of this task, distance learning will benefit the students and faculty immensely. ASAU will come back to the Bureau in April with proposals for cooperation.

Project Management Activities

Planning and Coordination with Other Projects

- The project focused on finalizing the work plan during the second quarter based on feedback from counterparts and USAID. The work plan was refined over the quarter based on additional feedback from USAID and will be finalized in April.
- The project has held several donor coordination meetings to discuss project topics and progress.
- The project began discussions with the World Bank on coordination of the high level economic forum scheduled for September.

Monitoring and Evaluation

- After completion of the project work plan the staff developed an M&E plan. This plan was submitted to USAID for review. The project also developed specific recommendations on how indicators should be measured as well as set potential targets. The revised plan will be developed and resubmitted after the final work plan is approved by USAID the beginning of next quarter.
- The project continued to collect baseline data on the clearly defined indicators. Some clarification was requested from USAID on certain indicators in order to move forward with surveys and collection of some baseline data.

Staffing

- Additional full-time staff began with the project in February and March from the USAID FSSP project. In addition, the project hired a full-time communications expert to assist with events and project outreach. By the end of the quarter the project had a total of 33 long-term staff in country.

Equipment

- The project inherited additional equipment from the USAID PSCEP project at the beginning of the quarter. This was added to the inventory already received from the USAID TIRSP project last quarter.
- A full evaluation of equipment and software needs of the project was conducted and submitted to USAID. The purchase of new equipment and software was identified. USAID requested a more detailed analysis to justify the identified requirements. This will be finalized next quarter.

3. Project Activities Planned for Q3 FY2011

Component 1: Domestic Business Environment Improved

1A: Build up Public-Private Dialogue

- The project will finalize memoranda of understanding with its civil society organization (CSO) partners, develop work plans, and initiate individual projects.
- The project will complete its assessment of legal information providers serving small and medium enterprises. If it finds that the problem is one of simply connecting SMEs with legal information providers, it will develop information materials that facilitate such connections. If it finds that the SMEs are underserved in this area, it will explore with USAID means of expanding services to SMEs in a sustainable manner.

1B: Improve Domestic Business-Related Legislation and Public Expenditure

- The project will consult with the Ministry of Economic Development on the draft competition code once the President's Office forwards it to them. The project will also begin raising public awareness of competition issues by supporting an episode a TV show on Azerbaijan News Service (ANS) television focusing on this subject.
- The project will submit its briefing paper on taxes to the President's Office and will have a representative speak at a conference on taxes sponsored by the American Chamber of Commerce. It will also be developing a strategy for longer-term engagement with the Government of Azerbaijan on this issue.
- The project will go ahead and develop a briefing paper for the President's Office on the proper role and function of investment laws.
- The project will submit a briefing paper to the President's Office on the necessity of a new banking code after consultation with affected parties and agencies.
- The project will mobilize two experts to address issues regarding efforts to develop a unified cadastre to govern both legal and technical aspects of land in Azerbaijan. The goal of this effort is to develop a briefing paper for the President's Office on this issue.
- The project will continue to engage the GOAJ on improving the use of cost benefit analysis, in particular through a follow up round table. It will also explore opportunities for addressing gaps in the current framework for conducting CBA in the development of government investment proposals.

1C: Institutionalize Knowledge

- The project will sign MOUs with each of the universities it selected. Further, with respect to Azerbaijan State Agrarian University, it will obtain clearance from the Ministry of Agriculture to work with this institution.

1D: Improve the Financial Sector

- The project will mobilize technical experts to work with the four of the five financial institutions it chose.
- The project will commence provision of assistance to the Central Bank of Azerbaijan on its cash management efforts, primarily through the expertise provided by Steve and Terry Glude.

- The project will mobilize an expert to work with the Central Bank of Azerbaijan's supervision department on a risk assessment system. It will also mobilize an expert to assist the bank's efforts to develop an effective activity based costing system. Upon receipt of a more particularized statement of its needs in the area of strategic management, the project will develop terms of reference and mobilize an expert to address these needs.
- The project will consult with the Central Bank of Azerbaijan on the findings of its off site expert concerning the bank code.

Component 2: Liberalized, More Transparent Trade Environment Developed

2A: Support to GOAJ on WTO Accession

- The project will work with Parliament on Draft Customs Code and ensure WTO compliance.
- The project will continue working with the President's Office to finalize Draft Law on Technical Regulation to be delivered to the Parliament.
- The project will work with line ministries to provide technical assistance in improving service offers.
- The project will work with the Cabinet of Ministers to finalize some laws to be submitted to the President's Office.
- The project will monitor, review and provide requested technical assistance regarding any revisions to the Draft Law on Antidumping, Countervailing Duties and Safeguard Measures (Trade Remedies) as it moves through the legislative process to maintain WTO conformity.
- The project will work with Ministry of Economic Development and Ministry of Foreign Affairs, as well as line ministries on questions asked by EU and US and assist in drafting proper answers to those questions.
- The project will assist in collection of any other document such as draft legislation to the government to be submitted to WTO or members.
- The project will assist in preparation of a codex harmonization plan and adoption of codex standards.
- The project will assess the impact of the elimination of export duties on domestic producers and revenue.

2B: Improve Anti-Money Laundering

- The project will finalize a work plan with specific activities in cooperation with the FMS (Financial Monitoring Service) of the CBA in order to continue to support implementation of AML/CFT legislation and understanding of reporting requirements in all reporting agencies.
- The project will continue to provide training/capacity building support directly to the FMs staff.
- The project will provide training to reporting agencies to ensure proper reporting to the FMS.
- The project will provide direct support to identified banks to update internal procedures and increase compliance with AML/CFT requirements. This work will continue through September.

2C: Quantify Costs of Current Trade Regime

- The project will work with the selected partners – ERC and IER to build their capacity and continue to:
 - Assess the impact of tariff liberalization for a dozen agricultural and non-agricultural goods on the priority list;
 - Assess the impact of the harmonization of excise taxes on domestic producers and revenue; and
 - Assess the impact of the elimination of VAT exemptions on domestic agricultural producers and revenue.
- Through ERC, the project will map out and document import or export processes of five cases, including import of animal feed, export of fruits and vegetables to Russia, and import of major consumer goods through the Baku airport.
- The project will identify import/export bottlenecks and causes and develop appropriate recommendations to address them. These may include policy, legal, institutional, procedural, and/or capacity building.
- The project will assess the impact and cost of non-best practices at the border, including costs to businesses, consumers, and government and impact on relevant economic indicators and, where applicable, other relevant factors (e.g. public health, environment).
- The project will develop first report summarizing findings including the process, impacts, costs, analysis, and recommendations, etc. of the identified case as outlined above.

Component 3: Targeted Agricultural Value Chains Improved

3A: Identify Sub-Sectors that Exhibit Potential for Competitive Growth

- The project will sign the BIC contract and begin the aquaculture market study on the industry in Azerbaijan.
- The project will continue working with Dirck Stryker and local partners on to progress on DRC data collection and analysis.

3B: Improve Competitiveness of Targeted Sub-Sectors

- The project will begin implementation on all aspects of the various action plans according to the approved time lines.
- The project will continue working with Component 2 to overcome administrative barriers according to the sector action plans. This will include the organization of the first in a series of sector roundtables to discuss administrative barriers to trade.
- The project will develop the terms of reference and sign contracts with the selected consulting companies to implement ACT project plans on HACCP compliance.
- The project will release the RFP to local associations with the capacity to assist ACT management in training the Azerbaijan Poultry Society and other associations on association development.
- The project will conduct association and associative entity training workshops to increase their efficiency and effectiveness.
- The project will perform cost accounting for rural fisheries production.
- The project will monitor the carp feed rations project in the Girkhbulag fish farm facility with the local expert Sabir Ganizade.
- The project will enlist international experts to support various elements identified specifically in the action plans and include dairy, agricultural marketing, and cold storage.
- The project will conduct initial sample collection for pesticide residue analysis for spring apples and selected vegetables.
- The project will develop and release an RFP on the Daily Price Index (DPI) reporting system.

3C: Improve Knowledge of Agricultural Best Practices

- The project will conduct management and business planning for agriculture training in conjunction with AIM and AKTIVTA.

- The project will utilize international experts in agricultural extension and education to begin the planned training programs.

Project Management Activities

- The project will submit the final project plan and M&E plan in the next quarter based on final feedback from USAID.
- The project will continue with donor coordination activities based on USAID's request. In the following quarter the project will host the agriculture and trade and investment sub-committee donor coordination meetings.
- The project will continue working with the World Bank on preparations of a paper on agriculture constraints to be presented at the high level forum planned for September.
- The project will continue to work with IFC on various fronts including investment climate-related activities and public-private dialog including developing the idea of the formation of a Business Council.

4. Financial Reporting

The table below provides a breakdown of costs by category for Q2 FY 2011 (January 1-March 31, 2011)

Categories	Vouchered January 1 - March 31, 2011 (US\$)
Technical assistance	
<i>Expatriates (US and TCN): Long-term Technical Assistance</i>	235,707
<i>Expatriates (US and TCN): Short-term Technical Assistance</i>	564,125
<i>Local Staff</i>	304,429
LTTA Allowances	41,047
Training Expenses	0
Administrative Expenses	
Travel/Transportation/Housing/Office Rent	278,002
Equipment & Vehicles	1,872
Other (Communications and Delivery, Bank Charges, Translation/Editing Services, Occasional Labor, Passports and Visas, Local CCN Social Costs, Legal Costs, etc.)	104,456
G&A	51,045

Grants	0
TOTAL	1,580,683

5. Issues\Constraints

- With the delay of the work plan approval, the project has been unable to complete its M&E plan. This will be resolved in the next quarter with the final approval of the work plan.
- The project has been hindered by the delay in authorization of the purchase of new computer equipment and software. This continues to require document rework and time lost due to equipment and software issues. This will be resolved in the next quarter with the resubmission of detailed requirements for consideration by USAID.
- The project continues to have difficulties with procurement because of the lack of inclusion of Sibley International on the Cabinet of Ministers' list of humanitarian organizations so that the VAT exemption letter can be obtained. USAID continues to provide support in this area. However, two vehicles remain in customs until this issue is resolved.

Annex 1 – Deliverables Schedule and Status through Q2

Component 1: Domestic Business Environment Improved

Deliverables-Activity 1-A	Due	Status	Partner	Comments
Conduct a quick assessment of Azerbaijani civil society agents to determine their current capacity of engaging in research and public dialogue, as well as their needs in moving forward.	Within five months of start date (March 1, 2011)	Submitted March 7, 2011	None	
Conduct a quick assessment of existing mechanisms for legal assistance to SMEs.	Within six months of start date (April 1, 2011).	Assessment Submitted on April 27.	None as yet.	
Identify an appropriate method for disseminating information on available existing legal mechanisms for SMEs.	Within six months of start date (April 1, 2011).	Not yet developed.		Currently contemplating a brochure.
Identification, analysis, and documentation of gaps in the current Azerbaijani legislation and/or practices that impede implementation of best practices for businesses.	Not specified	Informally began with AmCham only.	CSO Partners: AmCham, ERC, CESD, Khazar University.	
Deliverables-Activity 1-B	Due	Status	Partner(s)	Comments
Develop an agenda for business-friendly and international-best-practice-compliant legislation for submission to the GOAJ and USAID for review.	Within four months of start date (February 1,	Submitted November 2011.	None	

	2011).			
Develop subsequent versions of the above agenda.	Every six months (June 30, 2011)		CSOs	Suggesting due dates of every June 30 and December 31.
Deliverables-Activity 1-C	Due	Status	Partner(s)	Comments
Submit action plans for curriculum development and adoption with three leading universities.	Within six months of start date (April 1, 2011).	Assessment was submitted on March 23, 2011. Action plans still in finalization stages.	ASAU, ASEU, Khazar University	Challenging issues with cost benefit analysis curriculum slowing finalization.
Submit updated curriculum to the three partner universities and USAID for approval.	In accordance with the action plan.	Pending approval of action plans.	ASAU, ASEU, Khazar University	
Deliverables-Activity 1-D	Due	Status	Partner(s)	Comments
Conduct needs assessment of leading commercial banks, non-banking financial institutions, leasing companies, and regional business development service (BDS) providers to determine their understanding of technical issues and risks associated with lending/leasing in the agricultural sectors related to Component 3, as well as their interest and capacity to increase this lending/leasing.	Within six months of start date (April 1, 2011).	Submitted January 21, 2011.	None	
Draft an action agenda for successful implementation of the DCA lending, as well as sustained lending in this	Within four months of start	Access Bank expressed need for	Demir Bank and Access	

area beyond the duration of the DCA.	date (February 1, 2011).	brochures and MIS expert. USAID turned down the latter request. Access and Demir Bank action plans submitted to USAID on February 18, 2011.	Bank	
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Component 2: Liberalized, More Transparent Trade Environment Developed

Deliverables-Activity 2-A	Due	Status	Partner	Comments
Identify key legislation and implementing rules and regulations necessary for Azerbaijan's successful WTO accession. Together with relevant GOAJ counterparts and USAID, create an action plan, with timelines and benchmarks, to address these needs.	Within six months of start date (April 1, 2011).	Submitted November 2011.	President's Office	Action plan was developed with President's Office and will be updated every six months.
Develop and approve action plans of ministry working units.	Within six months of start date (April 1, 2011).	Quick assessment on working units completed. Ten action plans developed. Those	WTO related ministries	Formal document will be completed and submitted in early May.

		for 2011 have been discussed with USAID and government counterparts and approved in the context of ACT Y1 work plan.		
Deliverables-Activity 2-A	Due	Status	Partner	Comments
Conduct assessment and draft agenda for implementation of AML regulations.	Within six months of start date (April 1, 2011).	Completed under the previous project (FSSP).	FMS within the CBA	
Draft AML Handbook for regulators.	Within six months of start date (April 1, 2011).	Completed under the previous project (FSSP).	FMS within the CBA	
Deliverables-Activity 2-A	Due	Status	Partner	Comments
Select local institution with approved action plans.	Within six months of start date (April 1, 2011).	Complete	Economic Research Center	

Component 3: Targeted Agricultural Value Chains Improved

Deliverables-Activity 3-A	Due	Status	Partner	Comments
Identify at least one (1) local institution with the capacity to conduct agribusiness market studies and a	Within four months of start	Selection complete	DRC-Economic Research Institute and Azerbaijan	Work is in process as of February,

DRC analysis.	date (February 1, 2011).		Agribusiness Center First market study- Business Innovation Center.	2011.
Together with partner institution(s) create an action plan (to be approved by USAID), with benchmarks and a timeline.	Within five months of start date (March 1, 2011).	Action Plans complete and submitted in February 2011.	DRC-Economic Research Institute and Azerbaijan Agribusiness Center	Action plan is being implemented according to schedule.
Partner institutions for subsequent DRC analyses and studies and technical assistance are underway.	Within six months of start date (April 1, 2011).	Work is underway.	DRC-Economic Research Institute and Azerbaijan Agribusiness Center	
Deliverables-Activity 3-B	Due	Status	Partner(s)/Sectors	Comments
Select at least four (4) additional sectors to be addressed in the first year of the Project.	Within four months of start date (February 1, 2011).	Complete	<ul style="list-style-type: none"> • Pomegranate • Apples • Hazelnuts • Poultry (Processed chicken meat) 	The action plans for all have been submitted and approved. These are in addition to Dairy and Aquaculture.
Identify at least one (1) local institution, approve an action plan, and begin technical assistance on a practical, low-cost, and widespread system to obtain	Within six months of start date (April 1,	In Process	Potential partners are the Azerbaijan Agribusiness Input	Reevaluating initial selection of AMS (WB project).

and distribute daily commodity price information across Azerbaijan.	2011).		Dealers Association (AKTIVTA) and the Azerbaijan Marketing Society (AMS).	Want to explore better model to add even more value and sustainable. New target for final selection and action plan submitted end of May 2011.
Deliverables-Activity 3-C	Due	Status	Partner(s)	Comments
Assessment of agricultural-related education currently available in Azerbaijan, to include academic institutions.	Within six months of start date (April 1, 2011).	Assessment submitted on March 23, 2011.	<ul style="list-style-type: none"> • Agro Information Center • Azerbaijan State Agricultural University • Azerbaijan State Medical University 	Assessments are complete, action plans are written and work has begun.

Annex 2 – Outreach Highlights for the Quarter

Name	Description \ topic	Audience	Date
Interview of ACT WTO Accession Group's Team Leader Elkhan Mikayilov by "Express" and "Democrat" newspapers.	Elkhan answered questions on the financial sector and potential impact of accession to the WTO.		10 February
First Regional Anti-Money Laundering Workshop.	Financial Monitoring Service under the Central Bank of Azerbaijan with the support of USAID and other donor organizations held the first ever Regional AML\CFT conference.	Around 100 guests, including representatives of government, private sector banks, foreign Financial Intelligence Units, MONEYVAL, USAID etc.	17-18 February
Tax and Customs Policy Public Private Dialogue	AmCham and ACT co-sponsored an event to raise issues with the Ministry of Tax and the Ministry of Finance on business concerns under the current tax regime and to discuss the new Customs Code in Parliament.	Around 15 guests including AMCHAM members and public sector (Ministry of Taxes, Ministry of Finance), NGOs, International organizations.	18 March
SPS Discussion on Azerbaijan's needs for export to the EU	Anna Vasylenko led a discussion with the donor community on her findings related to the current state of the food safety regime in the country.	Donors, USAID, EU, FAO, etc.	18 March